

**REPORT OF THE AUDIT OF THE
ESTILL COUNTY
SHERIFF'S SETTLEMENT - 2005 TAXES**

May 1, 2006



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE 502.573.0050
FACSIMILE 502.573.0067**

EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
ESTILL COUNTY
SHERIFF'S SETTLEMENT - 2005 TAXES

May 1, 2006

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2005 Taxes for Estill County Sheriff as of May 1, 2006. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$3,018,021 for the districts for 2005 taxes, retaining commissions of \$121,038 to operate the Sheriff's office. The Sheriff distributed taxes of \$2,888,336 to the districts for 2005 Taxes.

Report Comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Wallace Taylor, Estill County Judge/Executive
Honorable Gary Freeman, Estill County Sheriff
Members of the Estill County Fiscal Court

Independent Auditor's Report

We have audited the Estill County Sheriff's Settlement - 2005 Taxes as of May 1, 2006. This tax settlement is the responsibility of the Estill County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Estill County Sheriff's taxes charged, credited, and paid as of May 1, 2006, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated October 24, 2006 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Wallace Taylor, Estill County Judge/Executive
Honorable Gary Freeman, Estill County Sheriff
Members of the Estill County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

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Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
October 24, 2006

ESTILL COUNTY
GARY FREEMAN, SHERIFF
SHERIFF'S SETTLEMENT - 2005 TAXES

May 1, 2006

	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
<u>Charges</u>				
Real Estate	\$ 230,679	\$ 835,853	\$ 1,249,509	\$ 359,749
Tangible Personal Property	12,607	44,223	54,993	37,721
Intangible Personal Property				12,179
Fire Protection	2,349			
Increases Through Exonerations	116	419	626	252
Franchise Taxes	48,223	161,831	220,439	
Oil and Gas Property Taxes	663	2,393	3,594	1,035
Limestone, Sand and Mineral Reserves	47	169	253	73
Penalties	2,450	8,795	13,124	4,062
Adjusted to Sheriff's Receipt	(194)	(673)	(1,034)	(291)
Gross Chargeable to Sheriff	<u>296,940</u>	<u>1,053,010</u>	<u>1,541,504</u>	<u>414,780</u>
<u>Credits</u>				
Exonerations	3,057	11,041	16,181	5,352
Discounts	3,346	11,972	17,729	5,610
Delinquents:				
Real Estate	12,864	46,211	69,273	19,945
Tangible Personal Property	185	650	808	393
Intangible Personal Property				22
Uncollected Franchise Taxes	<u>7,056</u>	<u>24,836</u>	<u>31,682</u>	
Total Credits	<u>26,508</u>	<u>94,710</u>	<u>135,673</u>	<u>31,322</u>
Taxes Collected	270,432	958,300	1,405,831	383,458
Less: Commissions *	<u>11,781</u>	<u>39,954</u>	<u>52,719</u>	<u>16,584</u>
Taxes Due	258,651	918,346	1,353,112	366,874
Taxes Paid	257,892	915,661	1,349,084	365,699
Refunds (Current and Prior Year)	<u>759</u>	<u>2,685</u>	<u>4,028</u>	<u>1,175</u>
Due Districts as of Completion of Fieldwork	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

*See Next Page

The accompanying notes are an integral part of this financial statement.

ESTILL COUNTY
GARY FREEMAN, SHERIFF
SHERIFF'S SETTLEMENT - 2005 TAXES
May 1, 2006
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	1,292,705
4.00% on	\$	309,485
3.75% on	\$	1,405,831

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENT

May 1, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENT
May 1, 2006
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240(4). As of May 1, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2005. Property taxes were billed to finance governmental services for the year ended June 30, 2006. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 13, 2005 through May 1, 2006.

Note 4. Interest Income

The Estill County Sheriff earned \$434 as interest income on 2005 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder is to be used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Estill County Sheriff collected \$22,307 of 10% add-on fees allowed by KRS 134.430(3). This amount is to be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Estill County Sheriff collected \$1,422 of advertising costs and \$2,681 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees are to be used to operate the Sheriff's office.

COMMENT AND RECOMMENDATION

ESTILL COUNTY
GARY FREEMAN, SHERIFF
COMMENT AND RECOMMENDATION

As of May 1, 2006

STATE LAWS AND REGULATIONS:

NONE

INTERNAL CONTROL - REPORTABLE CONDITION:

The Sheriff's Office Lacks Adequate Segregation of Duties

During our review of internal control, we found that the Sheriff's office has a lack of adequate segregation of duties. Due to the entity's diversity of official operations, small size, and budget restrictions, the Sheriff has limited options for establishing an adequate segregation of duties. We recommend that the following compensating controls be implemented to offset this internal control weakness.

Cash receipts by mail should be received and logged by someone who is independent of handling and/or posting cash receipts to the ledger. At a minimum, only one person should be designated to receive and open mail. The Sheriff could greatly increase the level of compensating controls by recounting and depositing cash and by performing surprise cash counts.

The Sheriff should periodically, compare the daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. The Sheriff should document this review by initialing and dating the bank deposit, daily checkout sheet, and receipts ledger.

The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff should document this review by initialing and dating the bank reconciliation and the balance in the checkbook.

The Sheriff should compare the quarterly financial report to the receipts and disbursements ledgers for accuracy. The Sheriff should also compare the salaries listed on the quarterly report to the individual earnings records. Any differences should be reconciled. The Sheriff should document this review by initialing and dating the quarterly financial report.

The Sheriff should require dual signatures on all checks and should periodically compare invoices to payments. The Sheriff should document this review by initialing and dating the invoices.

Sheriff's Response:

None

PRIOR YEAR:

Lacks Adequate Segregation Of Duties

Sheriff's Response: None

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Wallace Taylor, Estill County Judge/Executive
Honorable Gary Freeman, Estill County Sheriff
Members of the Estill County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Estill County Sheriff's Settlement - 2005 Taxes as of May 1, 2006, and have issued our report thereon dated October 24, 2006. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Estill County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe that the reportable condition described above is a material weakness.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Estill County Sheriff's Settlement - 2005 Taxes as of May 1, 2006 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

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Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
October 24, 2006

